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United States Senate

COMMITTEE ON SMALL BUSINESS
 WASHINGTON, DC 20510-6350

June 8, 2000

The Honorable Alexis Herman
 U.S. Department of Labor
 200 Constitution Avenue, N.W.
 Washington, D.C. 20210

Dear Secretary Herman:

In March of this year the Office of Inspector General (OIG), U.S. Department of Labor (DOL), issued two reports entitled "Evaluation of the Employment and Training Administration's Award Process for Welfare-to-Work Competitive Grants (Round 1)" (W-t-W Evaluation) and "Postaward Survey of the Washington Alliance Welfare-to-Work Competitive Grant" (Alliance Survey). On Monday, May 22, 2000, the OIG issued another report entitled "Postaward Survey of the Devereaux Corporation Welfare-to-Work Competitive Grant" (Devereaux Survey). These reports confirm that there continue to be significant and troubling issues with the DOL's management and oversight of the W-t-W program. Moreover, it is of greater concern that the OIG believes that the Employment and Training Administration's (ETA) response to the W-t-W Evaluation was "insufficient" and did not demonstrate a "commitment to establish a clear and sufficient set of internal controls that will correct the deficiencies"

The OIG states in the W-t-W Evaluation that it has concerns about ETA's due diligence in the pre-award clearance process. One need look no further than the Alliance Survey and the Devereaux Survey to see the ramifications of the ETA's lack of due diligence. The OIG's surveys conclude that Alliance and Devereaux do not have the administrative and program capabilities to operate the W-t-W grants in accordance with their grant agreements and W-t-W regulations. Furthermore, the OIG's major concern was that Alliance and Devereaux's current organizational structure and program operations depart significantly from the representations they made in their grant agreements. The following findings illustrate the serious nature of these misrepresentations:

- ▶ the OIG stated that the Alliance is actually a limited partnership in the hands of one managing general partner who has total and exclusive control over the \$5 million dollar W-t-W grant;
- ▶ the Alliance's goal was to enroll 515 participants by March, 2000, however, as of December 31, 1999, only 98 participants have been enrolled;
- ▶ since receiving the W-t-W grant, the Alliance has expended \$790,998 at an average cost of \$8,071 per participant; and

- ▶ the OIG believes the Alliance's current structure, operation and program design are materially noncompliant with the conditions of the grant award, essentially invalidating the competitive award.

The OIGs's findings in the Devereaux Survey reveal that:

- ▶ Devereaux was not licensed to operate in the State of Maryland when it applied for, and was awarded, the W-t-W grant — in fact Devereaux was located at the Executive Director's private residence;
- ▶ Devereaux misrepresented the company's performance history stating that it had been awarded federal and private sector contracts with the Labor and Treasury Departments, among others, and which was actually the personal work history of its Executive Director and consisted of two small government-funded grants totaling approximately \$8,000;
- ▶ Devereaux's Board of Directors — comprised of the Executive Director, her mother and her two sisters — did not authorize the Executive Director to apply for and accept the W-t-W grant in accordance with its articles of incorporation;
- ▶ Devereaux had cash drawdowns, as of January 31, 2000, in the amount of \$330,000 and costs totaling \$82,277 resulting in an excessive cash balance of \$247,723 in violation of the administrative regulations for Federal grants;
- ▶ Devereaux lacks an established staff compensation plan, but nevertheless is paying its Executive Director at a rate of \$103,000 per year and its Deputy Director (the Executive Director's mother, a former nurse) at \$77,700 per year;
- ▶ Devereaux's grant budget listed the cost for two administrative staff positions at \$348,600; and
- ▶ Devereaux incurred questionable transportation and travel costs including charging \$1,320 for a 4-week Jeep rental in order to move office supplies and furniture out of the Executive Director's private residence and \$675 for the Executive Director's hotel expenses while attending a training session at a Washington, D.C. hotel approximately 15 miles from the Executive Director's residence.

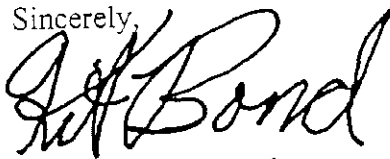
It defies logic to suggest that grantees such as the Alliance and Devereaux are meeting the W-t-W goal to provide effective transitional assistance to welfare recipients so that they can achieve economic self-sufficiency. Based upon the OIG's findings, the awards of \$5 million and \$3 million dollars to Alliance and Devereaux, respectively, are egregious examples of the DOL's failure to implement the W-t-W competitive grant program in a responsible and diligent manner.

Pursuant to the OIG's W-t-W Survey recommendations, and in addition to its prior surveys of the W-t-W program, I repeat the request I made in my letter of September 28, 1999, that the DOL immediately respond to the OIG's recommendations and institute programmatic changes. Furthermore, I once more request that the DOL submit a corrective action plan (CAP) to ensure that the OIG's recommendations are instituted in an efficient, effective and prompt manner. The CAP should, at a minimum, address the OIG's recommendations in each W-t-W survey completed to date.

In addition, it is my understanding that the W-t-W competitive grant applications do not include a statement, pursuant to 18 U.S.C. § 1001 (§ 1001 Statement), as a deterrent against false, fictitious, or fraudulent statements or representations made by applicants. I find it hard to believe that the DOL awards W-t-W competitive grants, which average \$4 million a piece, without such common-sense precautionary measures in place. Please explain why the DOL deemed a § 1001 Statement unnecessary in the W-t-W competitive grant application and agreement.

Finally, I request that the DOL brief my staff on ETA's CAP and progress in carrying out the OIG's recommendations no later than June 21, 2000. During that briefing please advise me as to whether the DOL shall implement the OIG's recommendation that the grants received by the Alliance and Devereaux should be terminated and the terms of that termination if applicable. Please provide a status and implementation report for each OIG recommendation and attach supporting documentation. If you or your staff have any questions regarding this matter, please do not hesitate to contact Dan Donovan at (202) 224-5175. Thank you in advance for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Bond", written in a cursive style.

Christopher S. Bond
Chairman